

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

March 28, 2002

Background Materials on the FY 2003 House Republican Budget

Dear Democratic Colleague:

On March 20, 2002, the House passed the FY 2003 House Republican budget resolution on a party-line vote of 221 to 209. The Budget Committee staff prepared the attached floor sheets, which outline the major flaws included in the House Republican budget.

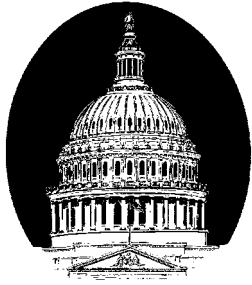
When it comes to the war against terrorism, the President has Democrats' total support. We are united, determined to win, and unstinting about paying the necessary cost. But Democrats don't believe that national security and homeland security should come at the expense of Social Security and other national priorities, as the President's budget and the House Republican budget propose.

The five-year House Republican budget spends all of the Medicare surplus and 90 percent of the Social Security surplus through 2007, the last year before the baby boom generation starts to retire. The President's ten-year budget spends all of the Medicare surplus and 75 percent of the Social Security surplus through 2012. Both budgets also ignore other pressing domestic priorities for education, child care, heating assistance for the poor, Medicare prescription drugs, and environmental protection.

I hope you find these floor sheets helpful. Please feel free to call me or the House Budget Committee's Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democrat



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Six Reasons Why the Republican Resolution Is Fatally Flawed

The President's own budget confirms that last year's flawed Republican economic plan caused the worst fiscal reversal in American history — the loss of \$5 trillion of a \$5.6 trillion surplus. Even after that reversal, and just six years before the start of the retirement of the Baby Boom, Republicans have no plan to bring the budget to recovery even a decade after the economy recovers. Worse still, this year's House Republican budget digs the fiscal hole even deeper.

1. The Republican resolution dissipates most of the Social Security surplus, and decimates all of the Medicare surplus, over at least the next five years.

OMB estimates the Social Security surplus at \$1.217 trillion over the current fiscal year plus the following five-year budget window (2002 through 2007). The Republican resolution calls for cumulative non-Social Security deficits of \$1.052 trillion, meaning that more than 86 percent of the Social Security surplus — as well as the entire Medicare surplus — will be spent.

The President and every House Republican leader promised last year that **every single** dollar of the Social Security and Medicare surpluses would be saved for Social Security and Medicare. With this Republican budget, virtually **no** dollar of the Social Security and Medicare surpluses will be saved for Social Security or Medicare.

2. The Republican resolution shows only five years of budget figures instead of ten, to cloak how much of the Social Security and Medicare surpluses the Republicans really spend.

With the President's budget invading Social Security as far as the eye can see, and spending nearly \$2 trillion of the cumulative surplus, apparently House Republicans did not want to reveal the ultimate consequences of their choices. The Republican resolution might appear to improve on the President's budget, with a five-year cumulative surplus about \$0.07 trillion higher, largely because of smaller tax cuts. But that appearance is misleading because the resolution is silent on policies and numbers for the following five years. Worse still, the resolution is a sham even for the first five years. Republican Speaker Hastert, the day after the Committee markup of the resolution, announced his plans to bring to the floor in April larger tax cuts than the resolution would acknowledge. These tax cuts include the extension of last year's massive enacted bill, which would cost about \$400 billion over the ten-year budget window.

3. **The Republican resolution uses OMB rather than CBO estimates**, in another reversal of sensible custom that further hides the outcomes of the Republicans' proposal.

Instead of relying on the Congress's own non-partisan authority, Republicans chose to use estimates by the Administration's political appointees. In 1995, Republicans shut down the government to insist on the use of CBO estimates. If CBO rather than OMB should prove correct, virtually the entire Social Security surplus will be gone for the next ten years.

4. **The Republican resolution omits numerous impending budgetary costs, and so further hides the amount of the Social Security surplus Republicans are spending.**

The Administration is about to request supplemental appropriations for defense and homeland security. The individual Alternative Minimum Tax will balloon twenty-fold, impinging on 39 million households — 34 percent of taxpayers — by 2012. Natural disasters will occur, and will demand emergency response by FEMA and other federal agencies. The budget resolution accommodates none of these or other certain or likely contingencies.

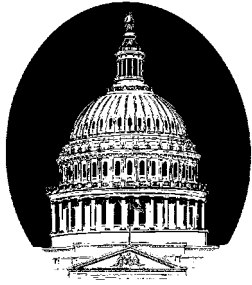
5. **The Republican resolution pays mere lip service to prescription drug coverage for seniors.**

The resolution reserves \$350 billion over ten years; but without ten-year numbers for the rest of the budget, this figure is not credible. Furthermore, the \$350 billion must cover not only prescription drug coverage but also provider give-backs and Medicare "modernization" in one legislative package, or funding is not available. This requirement is prohibitive. (For example, in both budgets and in last year's *Mid-Session Review*, the Administration called for Medicare "modernization" or "reform," but never defined the term — much less proposed legislation.)

Republicans have discussed as much as \$174 billion of ten-year Medicare provider give-backs. At the same time, the resolution's hopeful OMB assumptions project \$226 billion less in Medicare outlays over the next ten years than does CBO. If CBO's projections prove correct, there will be only \$34 billion for the prescription drug benefit (and for Medicare provider give-backs and for "modernization" of Medicare) over five years.

6. **In their resolution, the Republicans abandon priorities that they themselves have touted, and that all Americans share.**

To try to make their deficits appear smaller, Republicans have assumed non-defense, non-homeland security discretionary funding almost five percent below the level necessary to maintain current levels of services for 2003. For example, the resolution sustains the President's cut in funding for the bipartisan No Child Left Behind Act, as well as other cuts in health care, law enforcement, and environmental protection. If these cuts are not achieved — and many Republicans will oppose them — then the resolution's bottom line will be even worse.



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The Sham Republican Budget

- ***The House Republicans' Budget Resolution Cloaks the Real Republican Agenda*** — The real Republican plan diverts trillions of dollars from the Social Security and Medicare surpluses to fund a misguided agenda. This agenda risks the solvency of these two bedrock programs for the elderly only six years before the first Baby Boomers retire.
- ***The Sham Republican Budget Omits the Numbers for the Second Five Years*** — Since the 1997 Balanced Budget Act, it has been customary to employ ten-year projections, which recognize the impending fiscal challenges posed by the retirement of the Baby Boom. Last year, when Republicans were pushing a ten-year tax cut, they were content to use ten-year projections. Now that last year's big tax cut has passed and the long-term surplus has disappeared, Republicans find ten-year estimates inconvenient and are providing only a five year budget.
- ***Using Optimistic OMB Estimates Rather than Those of Congress's Official Scorekeeper, CBO*** — After twice shutting down the federal government seven years ago to force the Democratic Administration to use CBO estimates, House Republicans have now decided CBO's figures also are inconvenient. Just using CBO's baseline estimate of spending under current law rather than OMB's would make the non-Social Security deficit in the Republican resolution look worse by \$318 billion over ten years. During the government shutdowns, Republicans argued that only CBO could be trusted to be "honest," whereas OMB was politically tainted. CBO is Congress's own nonpartisan authority and has a role, established in the Budget Act, to provide unbiased analyses.
- ***Republicans Pretend They Do Not Want Any More Tax Cuts*** — The House Republicans' budget resolution would have us believe that they have abandoned the President's call in the State of the Union Address to make the tax cut permanent. Doing so would cost \$569 billion over ten years plus debt service, according to CBO. However, the day after the Budget Committee reported the resolution, both Speaker Hastert and White House spokesman Fleischer re-iterated their desire to see the tax cut made permanent — even though the cost does not appear in the Republicans' budget resolution.

- ***Republicans Omit the Cost of Extending Expiring Tax Provisions From Their Resolution*** — Table 3-12 in CBO's January budget outlook lists over 30 expiring tax provisions that Congress may well renew. Most Republicans have voted to renew these provisions in the past, but admitting they will do so again in the future would cost at least \$100 billion over ten years. These costs do not appear in the House Republican budget.
- ***The Republican Resolution Is Silent About the Burgeoning and Expensive Problem of the Individual AMT*** — Republicans are well aware of the fact that the individual alternative minimum tax (AMT) will increasingly burden middle-class families. On page 77 of the *Analytical Perspectives* volume accompanying the President's budget, the Administration states,

“By 2012 the number of AMT taxpayers will be 39 million (assuming [last year's tax cut] is extended), which is 34 percent of all taxpayers with individual income tax liability.”

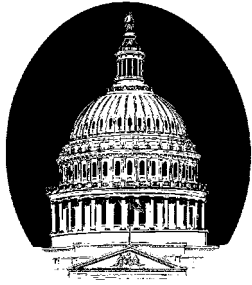
If nothing is done, more than half of all families with children, including many with moderate incomes using no tax shelters, will be subject to the AMT. The cost, including debt service, of a comprehensive reform of the AMT could easily reduce the ten-year surplus by \$450 billion or more.

- ***What's in the House Republican Budget for Medicare?*** — The House resolution creates an underfunded reserve to cover the costs of: 1) a Medicare prescription drug benefit; 2) increases in provider payments; and 3) the modernization of Medicare, which has yet to be defined.

How Much Is in the Reserve Depends on Whom You Ask — Using OMB numbers, the choice of the Republicans, the Medicare reserve fund increases Medicare spending by \$89 billion relative to current law over five years (2003-2007), and \$350 billion over ten years (2003-2012). Using CBO numbers, the reserve fund in the House Republican budget increases Medicare spending by only \$34 billion over five years, and \$124 billion over ten years during the same time periods.

Not Enough By Any Standard — According to MedPAC, an independent commission created to advise Congress about Medicare provider payments, provider increases are estimated to be \$174 billion over ten years (2003-2012). If enacted, these increased payments alone would consume half of the stated resources (\$350 billion).

- ***The Resolution Even Ignores the Cost of the Supplemental Appropriations That the President Will Soon Send to Congress*** — Although the funds for the imminent defense and security supplemental spending bill will be appropriated for 2002, much of the spending will occur in 2003 and 2004, affecting the deficits for those years. The Republicans' budget makes no provision for this. Nor does it provide for the substantial increase in foreign development aid that the President just announced in advance of his United Nations appearance.



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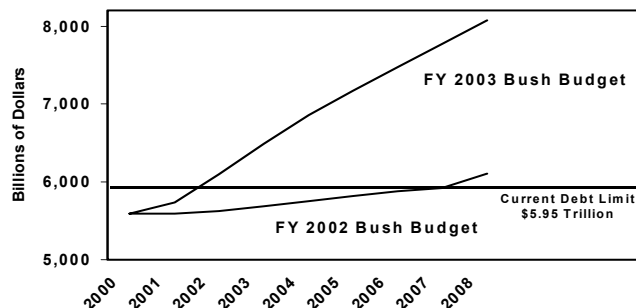
March 20, 2002

Mortgaging the Future — The Republicans' Debt Crisis

- ***Last Year, Republicans Tried to Claim That Paying off the Public Debt Too Quickly Was the Greatest Fiscal Danger We Faced*** — When the current Administration took office after eight consecutive years of fiscal improvement, CBO projected non-Social Security surpluses for the next decade and beyond. Republicans argued that one reason we needed an exploding tax cut was to avoid paying off too much debt. Republicans' fiscal mismanagement has now solved that "problem," and we face non-Social Security deficits for as far as the eye can see.

- ***Republican Fiscal Mismanagement Brought Forward the Need for a Debt Limit Increase by Seven Years*** — Last year's Republican budget did not foresee a need to increase the debt limit until 2009. Last December, though, Treasury Secretary O'Neill informed Congress that we risk hitting the debt ceiling in late March 2002 unless one resorts to extraordinary accounting measures — like those described below that the Administration is about to employ.

Debt Subject to Statutory Limit



- ***Even Taking at Face Value All the Republican Resolution's Gimmicks, Debt Held by the Public Will Be Almost as High Five Years from Now as it Is Today*** — The House Republican budget foresees a publicly held debt of \$3.3 trillion in 2007, only marginally below the current baseline level of \$3.4 trillion. This minimal debt reduction is a poor way to prepare for the impact on federal finances of the Baby Boom's retirement, which begins in 2008.

- ***If Republicans' Fiscal Mistakes Did Not Create the Urgent Need for a Debt Limit***

Prepared by the Democratic Staff of the House Budget Committee

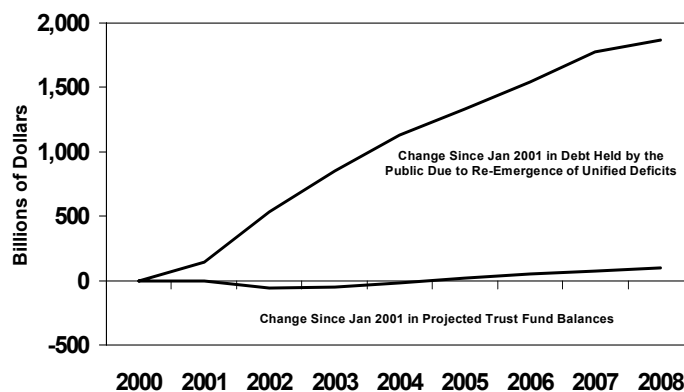
Source: OMB

02/08/02

Increase, Why Are They So Shy About It? — Treasury Secretary O’Neill is planning to borrow from the retirement trust fund for federal employees rather than have Congress vote an increase of the debt limit in the same week that Republicans vote for their budget. Having borrowed from the Social Security and Medicare Trust Funds to mask their fiscal mismanagement, Republicans now are going to borrow from the federal employees’ retirement trust fund as well.

- ***Republicans Incorrectly Argue That Treasury Obligations to Government Trust Funds Are Somehow Responsible for the Urgent Need to Raise the Debt Ceiling Now*** — It is true that Treasury bonds held by government trust funds are part of debt subject to statutory limit. However, the change in debt subject to limit since last year results almost entirely in the change in publicly held debt — a direct reflection of the budget’s return to deficit — while debt held by the trust funds has barely changed.

Why Do We Have to Raise the Debt Limit Now Instead of 2008?

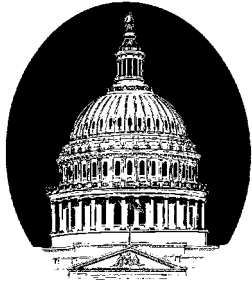


Prepared by the Democratic Staff of the House Budget Committee

Source: OMB FY02 & FY03 Budgets

02/08/02

- ***Republicans Wish to “Solve” the Problem of Rising Debt by Moving the Goal Posts*** — The Republican leadership is considering redefining debt subject to limit to exclude debt held by government trust funds. While this redefinition might make it appear as if debt subject to limit had declined rather than risen, it would be a sham. It also would amount to turning our backs on our obligations to Social Security and the other trust funds, which is not acceptable to Democrats.
- ***Republicans Incorrectly Claim That Their Policies Did Not Cause this Sudden Need for a Debt Ceiling Increase*** — Blaming the exigencies of war and a weak economy, Republicans claim that deficits will be “small and temporary.” However, the Administration’s own numbers show that the deterioration of the budget will be large and enduring, with non-Social Security deficits for as far as the eye can see. Furthermore, Table S-16 on page 415 of the President’s budget shows quite clearly that the single largest factor in the deterioration of the budget over the last year was the over-sized Republican tax, accounting for 43 percent. Once the economic slowdown is behind us, of course, that percentage will be higher.



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Republican Budget Raids Social Security and Medicare Surpluses

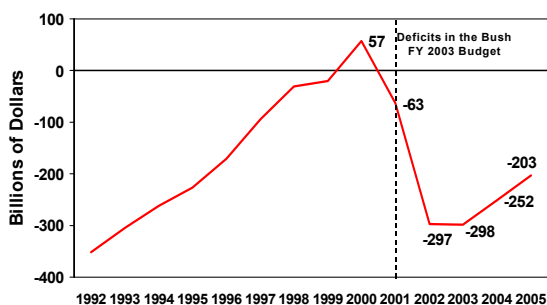
- ***The Republican Resolution Dissipates Most of the Social Security Surplus and All of the Medicare Surplus*** — According to the Republican resolution's own numbers, it spends more than 86 percent of the Social Security surplus for 2002 through 2007 and all of the Medicare surplus over that period. Over ten years, the invasion of the Social Security surplus would be similar to the President's budget, which spends 59 percent of the Social Security surplus according to OMB and over 70 percent according to CBO. Both Republican budgets spend the entire Medicare surplus for the foreseeable future — irrespective of which agency scores them.
- ***In One Year, Republicans Took the Non-Social Security Budget from Record Surpluses to Deficits for as Far as the Eye Can See*** — Last January, CBO estimated that the non-Social Security budget would have surpluses totaling \$3.1 trillion in every year from 2002 through 2011. OMB's baseline surplus a year ago was \$3.0 trillion. Now, even using the Administration's optimistic and incomplete estimates, the President's budget foresees non-Social Security deficits in every year that total \$1.65 trillion for the same period.
- ***Last Year, the President and House Republicans Promised to Save Every Single Penny of the Social Security and Medicare Surpluses*** — The President, Speaker Hastert, Majority Leader Armey, and Majority Whip DeLay all went on record saying that the Social Security and Medicare surpluses should be protected. Ostensibly to prove their fealty to saving the trust fund surpluses, Republicans pushed several hortatorical lockbox bills. With this Republican budget, however, virtually none of the Social Security and Medicare surpluses will be saved.
- ***Now, the House Republican Resolution Goes to Great Lengths to Omit and Understate Its Costs to Cloak the Republicans' Invasion of Social Security and Medicare*** — The Republican resolution hides the effect of its policies after five years. It uses optimistic OMB estimates rather than relying on Congress's official scorekeeper, CBO. It pretends that Republicans do not want any more tax cuts. It does not even show the

costs of the President's plan to make last year's tax cut permanent. It omits the cost of expiring tax provisions that most Republicans have voted to renew in the past. It is silent about the burgeoning and expensive problem of the individual AMT. It includes a completely implausible and insufficient "reserve" for a Medicare prescription drug benefit. It does not even include funds for the defense and security supplemental appropriation request that the President will soon submit to Congress.

- ***In Committee, Republicans Even Rejected an Amendment Requiring Congress to Try Again Next Year to Develop a Plan to Save the Social Security Surplus*** — Democrats offered an amendment in committee that would have made it out of order to offer a budget resolution next year that did not contain a five-year plan to return to on-budget surplus. All but one Republican Member of the Budget Committee voted against this rather innocuous amendment. The Rules Committee also would not allow the full House to consider this amendment.

A Return to an Era of Deficits

Deficits without Social Security or Medicare



Prepared by the Democratic Staff of the House Budget Committee

Source: OMB

02/08/02

The 10-Year Non-Social Security Surplus

Trillions of Dollars

	2002-2011	2003-2012
April 2001	3.046	N.A.
August 2001	0.575	N.A.
February 2002	-1.650	-1.464

Source: Office of Management and Budget

Prepared by the Democratic Staff of the House Budget Committee

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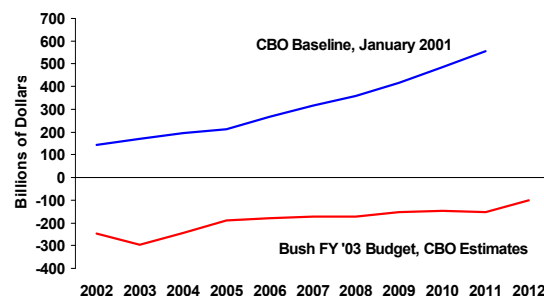
“To make sure the retirement savings of America’s seniors are not diverted into any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.”

President Bush, Address to Joint Session of Congress, February 27, 2001

Prepared by the Democratic Staff of the House Budget Committee

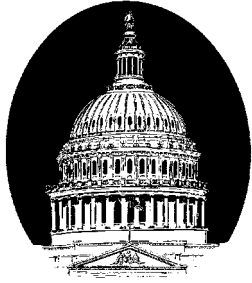
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Non-Social Security Surplus



Prepared by the Democratic Staff of the House Budget Committee

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Is It a Mirage?

The Republican Reserve Fund for Medicare Prescription Drugs, Modernization, and Provider Payment Adjustments

- ***What's in the House Republican Budget for Medicare?*** — Not much. The House Republican budget replaces the President's inadequate proposal with its own inadequate proposal, a Medicare reserve fund. Like the President's budget, the House Republican budget lacks sufficient resources. The House resolution establishes an underfunded reserve to cover the costs of: 1) a Medicare prescription drug benefit; 2) increases in provider payments; and 3) the modernization of Medicare, which has yet to be defined.
- ***Size of Medicare Reserve Depends on Who You Ask*** — Using the Republicans' accounting method (OMB), the Medicare reserve fund increases Medicare spending by \$89 billion relative to current law over five years (2003-2007), and \$350 billion over ten years (2003-2012).

Using Congress' traditional accounting method (CBO), the reserve fund in the House Republican budget increases Medicare spending far less than is stated. Under the traditional method, Medicare spending relative to current law is increased by \$34 billion over five years (2003-2007), and \$124 billion over ten years (2003-2012). (See *The Magic Bullet of Creative Accounting — Republican Math* on other side for further discussion.)

- ***No Money Unless a Proposal Deals with All Three Covered by the Reserve*** — The reserve fund will be released only when a proposal including prescription drugs, provider payment adjustments, and modernization is before the House for consideration.
- ***No Matter How You Count It, the Republican Medicare Reserve Is Meager*** — Regardless of the accounting method used to measure the House Republican budget's Medicare increases, the reserve fund is woefully inadequate. Unless Medicare taxes are increased, benefits are cut, or beneficiary costs increased dramatically, the reserve fund will not cover the costs of establishing a meaningful prescription drug benefit, increasing provider payments equitably, and modernizing Medicare in some undefined manner.

According to MedPAC, an independent commission created to advise Congress about Medicare provider payments, provider increases are estimated to be \$174 billion over ten years (2003-2012). If enacted, these increased payments alone would consume half of the stated resources (\$350 billion).

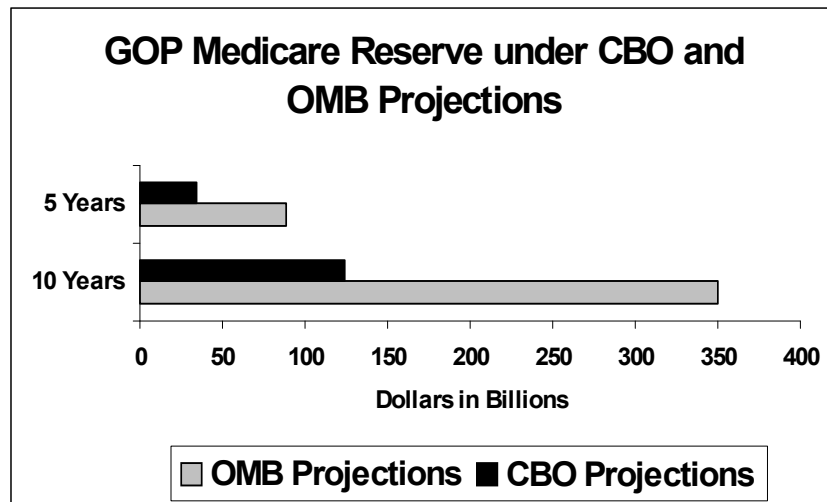
The Magic Bullet of Creative Accounting — Republican Math

- ***Changing the Accounting Method to Suit the Need*** — Discussions of baselines are usually left to technicians while others roll their eyes at the mere thought of the topic. However, in order to understand the House Republican budget, one must pull out the green eyeshade. Without it, one would not see why it could possibly matter how the beans are counted.

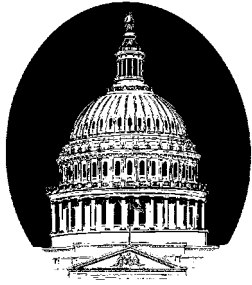
A baseline is the way in which we account for projected spending under current law. It is the benchmark against which all increases and decreases are measured. If someone says he is increasing or decreasing a particular program such as Medicare, that increase or decrease is measured against a baseline.

In the case of Medicare, using OMB's baseline, rather than CBO's baseline, results in Medicare increases appearing higher than they would than if they were compared with the CBO baseline. This is because OMB's Medicare baseline is significantly lower (\$226 billion over ten years, 2003-2012) than CBO's Medicare baseline.

For example, if someone says that the new level of spending for a program is \$100, the increase in the program is measured against its existing level (the baseline). If the current level is \$50, then the increase is also \$50. If the current level is \$25, then the increase is \$75.



The House Republican budget measures its Medicare increases against a benchmark (OMB's baseline) that projects lower current spending than other benchmarks (CBO's baseline.) This makes the Medicare increases in the House Republican budget appear higher than they would otherwise.



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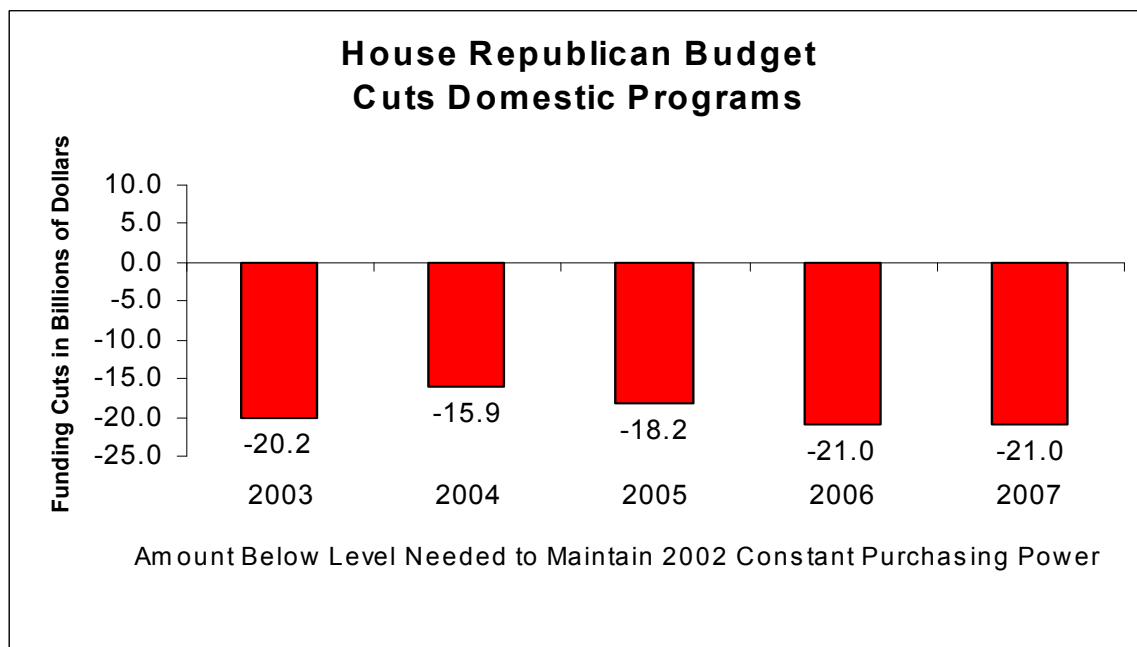
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The Republican Budget Slashes Domestic Programs

Republicans Cut Domestic Funding for 2003 by \$20 Billion — The House Republican budget cuts funding for domestic programs not related to homeland security by \$7.8 billion below the 2002 enacted level. This is \$20.2 billion (5.4 percent) below CBO's estimate of the amount needed to maintain purchasing power at the 2002 level. To the extent that the budget increases funding for a few high-profile programs, such as the National Institutes of Health and special education, the remaining programs face even steeper cuts. Either Congress must make cuts that it has repeatedly refused to make in past years, or Congress will dip into the Social Security surplus more than the Republican budget advertises.

Republicans Cut Domestic Funding Every Year — As the chart indicates, the House Republican budget maintains continues to cut domestic programs for five straight years (2003 - 2007). The cumulative cut to domestic programs over this five-year period is \$96.3 billion from what is needed to maintain purchasing power at the 2002 level.



Here are a few examples of the cuts the House Republican budget contains:

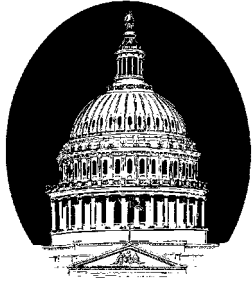
- ***Republicans Leave Children Behind*** — The Republican budget not only fails to provide all the funding authorized for the No Child Left Behind Act - the bipartisan reauthorization of the nation's main elementary and secondary education law that the President signed into law with much fanfare just two months ago - it actually cuts funding for these programs by \$90 million from the 2002 enacted level.
- ***Republicans Gut Health Care*** — In addition to ignoring the pressing need of almost 40 million Americans (9 million children) for access to health insurance, Republicans wipe out programs that coordinate care for the uninsured (community access program and state planning grants). The House Republican budget then cuts major programs such as:
 - ✓ rural health programs (cut 41.9 percent);
 - ✓ Telehealth (cut 84.6 percent);
 - ✓ health professions (cut 71.6 percent); and
 - ✓ pediatric graduate medical education (cut 29.8 percent).

In addition, the House Republican budget hamstring health care services by freezing funds for:

- ✓ Ryan White AIDS activities;
 - ✓ Title X Family Planning grants;
 - ✓ maternal and child health block grant; and
 - ✓ healthy start for high-risk babies.
- ***Republicans Cut Assistance for Working Families*** — Despite the fact that federal child care grants reach only one out of seven eligible children, Republicans cut appropriated child care funding by \$40 million. Frozen resources in other child care programs cut an estimated 114,000 kids off the rolls by 2007. The Republican budget slashes Low Income Home Energy Assistance Program (LIHEAP) grants by nearly \$338 million (20 percent). With nearly five million low-income families paying over half of their incomes towards rent, and 800,000 homeless, the Republican budget cuts housing resources.

The Republican budget also slashes key housing resources in these areas:

- ✓ public housing (cut \$502 million);
- ✓ Housing for the Elderly and Disabled (cut \$20 million);
- ✓ Homeless Assistance Grants (cut \$14 million); and
- ✓ eliminating the Rural Housing and Economic Development program.



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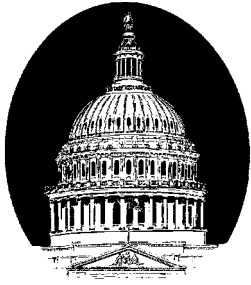
March 20, 2002

Republican Budget Leaves Many Children Behind: The Broken Education Promise

- ***Republican Education Increase Fails to Keep Pace*** — For 2003, the Republican budget matches the President's budget in providing only a \$1.4 billion (2.8 percent) increase over the 2002 enacted level of appropriations for the Department of Education. This is less than one fifth of the 15.9 percent increase Congress gave Education last year, and less than one quarter of the 13 percent average annual increase Congress has provided over the last five years.
- ***Republicans Cut Funding for New Elementary and Secondary Education Act (ESEA)***
— The Republican budget not only fails to provide all the funding authorized for the No Child Left Behind Act — the bipartisan reauthorization of the nation's main elementary and secondary education law that the President signed into law with much fanfare just two months ago — it actually cuts funding for these programs by \$90 million from the 2002 enacted level. The resulting Republican funding is \$4.2 billion below the authorized level.

Scenario	Funding (Billions of Dollars)
Bipartisan ESEA Act	\$26.3
2002 Enacted Level	\$22.2
2003 Republican Budget	\$22.1
- ***Republicans Cut \$1.8 Billion of Education Programs*** — To fund increases in a few programs — primarily \$1.0 billion each to special education and education for the disadvantaged (Title I), \$549 million to try to maintain Pell Grants at their current levels, and \$100 million for reading — the Republican budgets cut other education programs by \$1.8 billion from the 2002 enacted levels.

- ***Republicans Eliminate 28 Elementary and Secondary Education Programs*** — The budget eliminates 28 elementary and secondary education programs and other Congressional priorities including Drop-Out Prevention, Rural Education, Civic Education, Close-Up Fellowships, and numerous technology training programs.
- ***Republicans Cut or Freeze Many Elementary and Secondary Education Programs*** — The budget cuts funding for many programs including: educational technology (cut \$134 million, or 15.7 percent); Improving Teacher Quality programs (down \$105 million to \$3.0 billion); and Safe and Drug-Free Schools (cut \$102 million, or 13.7 percent, to \$644 million). It freezes funding for 21st Century Community Learning Centers after-school programs, comprehensive school reform, and school choice and magnet school programs.
- ***Republicans Cut Pell Grants*** — So many more low-income college students applied for Pell Grants last year that there is a \$1.3 billion shortfall in 2002 funding for the program. In spite of this growing need, the Republican budget intends to freeze the maximum Pell Grant award at last year's level of \$4,000. However, CBO estimates that the funding in the Republican budget will actually cut the maximum Pell Grant to about \$3,900. This cut is in sharp contrast to Congress's annual increase for Pell Grants in the past five years.
- ***Republicans Divert Funding to Private School Tax Credits*** — Rather than fulfill current needs for federal education funding — such as special education, Title I, and Pell Grants, which are all funded well below their authorized levels — the Republican budget includes a new tax credit for students to attend a private or public school if they were assigned to a failing public school. This tax credit costs \$175 million in forgone taxes and government spending in 2003, and \$3.7 billion over five years (2003-2007).
- ***Special Education at Only 18 Percent of "Full Funding"*** — The Republican budget includes a smaller increase than Congress provided last year for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, providing only a \$1.0 billion increase for 2003. This funding puts the federal contribution at only 18 percent of the national average per pupil expenditure, still less than half the 40 percent "full funding" federal contribution ceiling authorized by IDEA. The Republicans claim they are on a path to reach full funding in ten years, but their budget covers only five years; for 2007, they provide about 26 percent of full funding.
- ***Democrats Try to Add Education Funding*** — During the Budget Committee markup, Democrats offered amendments to provide \$3 billion more for ESEA programs, raise the maximum Pell Grant award to \$4,500, allow Head Start to serve one million children, and increase IDEA by \$1.5 billion for 2003. Republicans rejected each amendment.



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

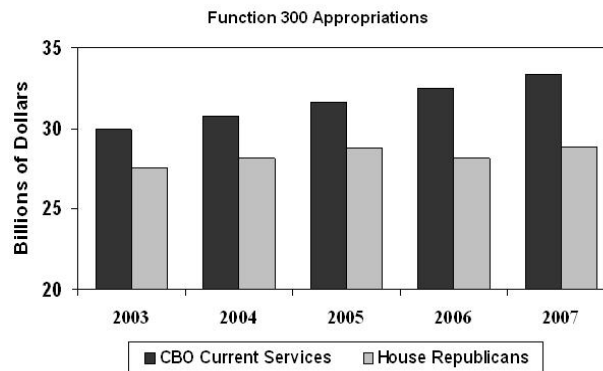
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March 20, 2002

Same Old Story: Republicans Undermine Environmental Protection

Just as it did last year, the House Republican budget makes significant cuts to funding for programs that protect public health and the environment. For 2003, the Republican budget provides \$27.6 billion for natural resources and environmental appropriations, a cut of \$1.4 billion (4.9 percent) from last year's enacted level and a cut of \$2.4 billion (7.9 percent) from CBO's estimate of the level needed to maintain environmental programs at current services. These cuts continue through the five-year span of the Republican budget. Cuts of this magnitude undermine our ability to protect public health and the environment and to properly manage our public lands.

House Republican Budget Undermines Environmental Protection



Prepared by the Democratic Staff of the House Budget Committee

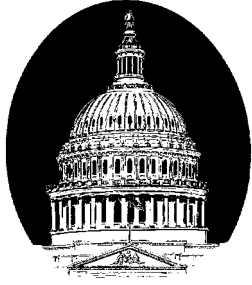
Source: CBO

03/15/02

- **Where's the Money for the President's Environmental Promises?** — During the 2000 campaign, President Bush made two major environmental promises: (1) to eliminate the \$4.9 billion maintenance backlog of the National Park Service; and (2) to provide "full funding" (\$900 million) for the programs funded out of the Land and Water Conservation Fund (LWCF). The Republican budget does not live up to either promise.
 - ▶ **No New Funds for National Park Service Maintenance** — The President's campaign promise was to eliminate the National Park Service's \$4.9 billion maintenance backlog over a period of five years. Fulfilling this promise would require approximately \$1 billion in additional funding each year. However, just

like last year, the Republican budget fails to provide the funding that would put the government on course to fulfill that promise. For 2003, the Republican budget provides only \$663 million for construction and maintenance, nearly the same as last year.

- ▶ ***Republican Budget Uses Shell Game for LWCF Programs*** — The Republican budget claims to fully fund Land and Water Conservation Fund programs at \$900 million. However, in order to do this, the Republicans use the LWCF to pay for unrelated programs – a real budget “shell game.” In fact, the Republican budget provides only \$486 million for the traditional purposes of the LWCF, which is \$88 million less than last year and \$175 million less than the amount requested for 2003 by a large coalition of environmental organizations.
- ***Republicans Freeze Funding for Priority Conservation Funding*** — The Republican budget freezes spending for the priority conservation programs given dedicated funding in the 2001 bipartisan conservation agreement. For 2003, funding for these programs should total \$1.92 billion. Instead, the Republican budget shorts these programs by \$250 million for 2003, and it cuts funding over the next four years by \$1.7 billion below the authorized levels. The lack of funds means that we lose the opportunity to secure America’s natural treasures, and it means no new funding to help states and localities preserve open space, restore urban parks, and protect coastal resources.
- ***Republicans Gut Environmental Enforcement Offices*** — The Republican budget cuts hundreds of positions in EPA’s enforcement offices. These offices, which deter polluters from breaking the law in the first place, are the backbone of federal environmental protection.
- ***Republicans Drastically Cut Army Corps of Engineers*** — The Republican budget is premised on an unwise and unrealistic cut to the Army Corps budget. The Republican budget cuts the Army Corps budget by \$369 million (7.9 percent) below the 2002 level and contains no funding for new construction efforts. The Republican budget is so unrealistic that Mike Parker, the head of the agency, refused to endorse it during Congressional testimony; the Administration then forced him to resign.



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March 20, 2002

Broken Republican Promises: Republicans Pledged to Save Social Security and Medicare Surpluses

Just one year ago, Democrats cautioned that the Republican budget would set us on a path to deficit spending and raiding the Social Security trust fund surpluses. Republicans assured us that our worries were unfounded.

Now, the numbers tell the story. The Congressional Budget Office (CBO) announced in January that last year's Republican budget was on course to spend \$845 billion of the Social Security Trust Fund over the next ten years. This year's Republican budget from the Administration only makes matters worse, offering additional tax cuts costing \$800 billion, every penny of which will come from the Social Security Trust Fund. *In total, the Administration's new budget diverts more than \$2 trillion of the Social Security and Medicare Trust Fund surpluses over the next ten years.*

Republican Quotes that Their Budget Would Not Raid Social Security

Last Year's Administration Budget:

"None of the Social Security surplus will be used to fund other spending initiatives or tax relief."

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities, Office of Management and Budget, February 28, 2001, Page 11.

"There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest 'risk' to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates..."

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities, Office of Management and Budget, February 28, 2001, Page 14.

Majority Leader Dick Armey:

“We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we’ll do that.”

BNA’s Daily Tax Report, July 11, 2001.

Speaker Dennis Hastert:

“We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That’s in the parameters of our budget and we are not going to dip into that at all.”

BNA’s Daily Tax Report, March 2, 2001.

President George W. Bush:

“Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.”

Remarks at Western Michigan University, March 27, 2001.

Democrats Warned that the Republican Budget Left No Margin for Error

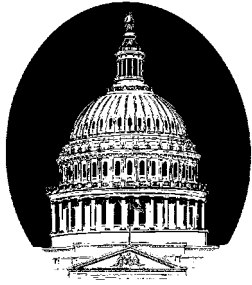
Budget Committee Ranking Member John Spratt:

“It has taken us almost 20 years and \$4 trillion in debt to escape the fiscal mistakes we made in the 1980s and turn this big budget around, out of deficits and into surpluses.

“Today I have one priority, one overriding objective, and it is simply this: to make sure that we do not backslide into the hole we just dug ourselves out of. That is my overriding objective and that is why I have a problem with the Republican resolution, because it leaves so little room for error.

“I hope that these blue-sky projections that total some \$5.6 trillion in surpluses over the next 10 years will materialize. It will be a great bounty for all of us. But if they do not and *if we pass this resolution, we can find ourselves right back in the red again in the blink of an economist’s eye.*” [emphasis added]

Congressional Record, March 28, 2001, H1266.



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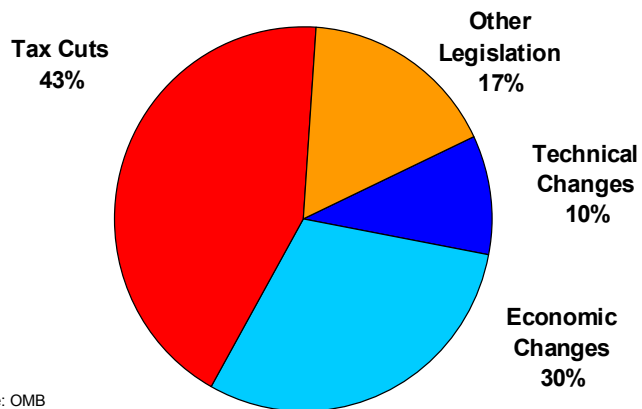
March 28, 2002

Revised

What Caused the Sudden Deterioration of the Ten-Year Surplus?

- ***Republicans Incorrectly Claim That the September 11 Attacks and the Recession Caused the Sudden Fiscal Reversal*** — When it comes to waging and winning the war on terrorism, the President has Democrats' total support. We are united, determined to win, and unstinting about paying the necessary cost. But the President and Congressional Republicans are wrong when they claim that the budget has reverted to deficits solely because of the war on terrorism and the economic recession. Table S-16 on page 415 of the President's budget shows clearly that the single largest factor in the deterioration of the budget over the last year was the over-sized Republican tax cut, accounting for 43 percent. And ten years from now, when the economy has long recovered from the recession, their own budget shows us still in the red — spending the Social Security and Medicare surpluses for as far as the eye can see.

Changes in the Total Budget Surplus, FY 2002-2011



Source: OMB

- ***The War on Terrorism Accounts for Only a Small Part of the Increase in Defense and Homeland Security Funding*** — The House Republican budget resolution exactly matches the President's budget request for defense and homeland security for 2003. According to information provided by Department of Defense, added costs for the war on terrorism and homeland security account for \$14.7 billion of the \$45.2 billion 2003 increase in defense funding. Thus, only about one-third of this year's increase in defense funding is narrowly focused on the new imperatives of the war on terrorism.

Similarly, the increase in non-defense homeland funding for 2003 is only \$5.8 billion. The war's impact on the budget pales by comparison to the \$5 trillion deterioration seen over the past year.

- ***The War on Terrorism and Homeland Security Are a Small Fraction of the House Republican Budget*** — The House Republican budget is identical to the President's request for 2003 for defense. According to the Department of Defense, the expected cost of the war on terrorism for 2003 is \$22.2 billion, including the \$10 billion reserve fund. The House Republican budget, like the President's budget, also provides a total of \$37.7 billion for all homeland security activities for 2003. This total of \$59.9 billion is a little less than 3.0 percent of all federal funding included in the House Republican budget (see chart below). Given that the war on terrorism and homeland security comprise such a small percentage of overall federal funding, it is simply not credible to claim these as the primary causes for raiding Social Security surpluses.

Homeland Security and War on Terrorism As a Percentage of House Republican Budget

